

Testimony from Congresswoman Candice Miller (MI-10)  
before the Michigan House Committee on Insurance  
Thursday June 9, 2011  
Chairman - Representative Pete Lund

Thank you, Representatives Lund and Forlini for hosting this hearing today. It's a pleasure to participate in this discussion. The National Flood Insurance Program has been an important issue in my office for several years, and I hope that this hearing will highlight the problems with the NFIP and how they relate to Michigan residents. I am hoping that with our combined efforts we can provide some much needed relief to our constituents.

I have been working on these issues for some time now and as I learned more about the actuarially unsound practices of the NFIP and began hearing more stories about Michiganders who look down at the water, not up, who are paying absurdly high rates, I began my efforts in Washington. What I discovered was a program in need of great reform.

I had the pleasure of discussing this topic earlier this year when Representative Forlini invited me to attend a public hearing along with Representative Andrea LaFontaine and other members of the Legislature. We discussed, along with local realtors, the insurance industry, homeowners, home builders and mortgage brokers the viability of this program in the state of Michigan. We received great feedback and heard from many community members about the outrageous NFIP rates they are being forced to pay.

As many of you know, my district is along the shore of Lake St. Clair, the St. Clair River and Lake Huron. We also have many rivers and tributaries. They occasionally flood, but not as often as you would think given the amount of money residents there are paying in premiums. More importantly, in Michigan, we by and large don't build houses in flood-prone areas.

In Michigan we are struggling economically. We have been hit by an economic hurricane of higher energy costs, low cost foreign competition and low cost states, many of which are recipients of the largess of the FEMA flood program.

We also continue to have one of the highest unemployment levels in the nation, and our citizens cannot afford to continue to pay higher costs for insurance they don't use. Yet we are being forced to subsidize the insurance of other, more flood-prone states.

I would also like to clarify that I do believe that people who choose to live in floodplains or flood prone areas should be required to purchase flood insurance in order to secure a federally backed mortgage, but I also believe the federal government is a lousy insurance company.

I have a serious problem with NFIP using the State of Michigan, and other Great Lakes states, as ATM machines for the rest of the country, particularly the parts of the country that are subject to hurricanes. Right now, Michigan enrollees in the NFIP are paying more money in premiums to the NFIP than enrollees in Louisiana, Florida, or Texas, for example. With this concern in mind, I had a Congressional Research Service Report conducted to study the differences between Michigan premiums compared to coastal states such as Louisiana and Florida (*I have included a copy of this report with my remarks today*). In this chart you can see that from 1978 to 2010, Michigan residents paid \$284.4 million in premiums and received \$45 million in claims versus those in Louisiana who paid \$3.9 billion in premiums and received \$16 billion in claims. This means that Michigan's average premiums last year were 69% higher than in Florida, and 18% higher than Louisiana. When you look at the number of policies this includes the average value of the insured properties in Michigan is roughly 40% lower than Florida and 37% lower than Louisiana.

Keeping in mind that Hurricane Katrina was clearly a large factor in the premium discrepancy in Louisiana, it is unacceptable for Michigan

residents to suffer from the lack of readiness the NFIP showed during these recent natural disasters. Even more egregious, is that the homes insured in those states are on average far more valuable than the homes insured in Michigan yet the average premiums are lower. Simply put, Michigan is paying more for less.

Across the country where we are seeing disastrous flooding with many homes literally underwater, it is ironic to see how many of these people do not have flood insurance. To make the absurd outrageous, there have been homeowners who, while their homes are underwater, are able to take out a small mortgage and purchase flood insurance after their house has already flooded. Can you imagine buying car insurance after you get in an accident, and using that policy to fix your car?

It's unacceptable that the NFIP is \$19 billion in debt in large part due to the fact that they are not charging actuarially sound rates, and what's more, are not required to maintain the same reserves as other insurance companies. The Federal government is a bad insurance company, and the Federal government should not be in the flood insurance business in the first place.

In terms of the flawed FEMA flood mapping process you only need to look right here in Michigan where you'll find homes being placed into floodplains that haven't seen a flood in decades and just a week ago, we saw houses flood that were located in areas that FEMA deemed outside of the flood zone and outside the NFIP's mandatory purchasing regulations. All of our constituents are suffering from this program, and subsequently subsidizing flood insurance rates for other parts of the country that are subject to constant flood risk and don't pay actuarially sound rates.

The flood insurance program has been consistently in debt and Congress has had to continually raise its purchasing debt limit. The NFIP, last reformed in 2004, has failed to charge sufficient rates to cover its risk which has resulted in significant exposure to taxpayers. The Government

Accountability Office has listed the NFIP as a high-risk government program since 2006. I believe the policies within the flood insurance program need to be addressed before further funding is allocated to this indebted program. We do not have the power to stop natural disasters from happening but we do have the ability to prepare for them in a manner that does not rely on the U.S. Treasury Department.

Congress is due to reauthorize NFIP and I hope that we can make the needed reforms. In an ideal world this program, just like other insurance programs, would be controlled by the private insurance market. I think we will, and have already, started the conversation in Washington about transferring this program over to the large insurance agencies that have the means to cover such large risks. When I say that we've started the conversation, believe me. Within hours of introducing my bill, we had dozens of meeting requests from groups on both sides of the issue. Moreover, the Financial Services Committee, which I mentioned has jurisdiction over the NFIP, has taken notice that I want to end the NFIP, and I'm working with them to make sure any reforms the program sees help level the playing field.

Back in Washington I have introduced the National Flood Insurance Program Termination Act. My bill would eliminate the NFIP in its entirety by December 31, 2013. This would give states, such as Michigan, time to form regional insurance compacts to properly spread risk within a state or region as well as let the private insurance market adapt. My bill would also retain FEMA's assistance in producing high quality flood maps and assisting states and the private sector to insure against flood loss. I want to thank Representative Forlini for offering his Resolution here in the State House in support of my efforts.

Legislation that is expected to be voted on this summer, the National Flood Insurance Reform Act, passed through the House Financial Services Committee earlier this year, the committee of jurisdiction. This bill would extend NFIP through 2016 and provide reforms to the NFIP that would improve its financial stability, reduce the burden on

taxpayers, and examine ways to increase private market participation. The program was extended last year through September 2011 and unfortunately in the Homeland Security Appropriations bill that passed through the House of Representatives last week, a blanket one year extension was slipped in to extend NFIP through September 2012 if the House is unable to take up reform this summer. I promise to push for change in Washington; as we all know, the current NFIP program surely could use some.

Going back to the reform legislation, mandatory purchasing requirements would unfortunately continue but newly mapped communities would have new avenues to delay payments for 1 to 2 years while they challenge FEMA's mapping process. Another promising section of this bill is the creation of a "Technical Mapping Advisory Council" that would bring together the Administrator of FEMA as well as representatives of federal agencies with mapping responsibilities and private sector experts (real estate, data management and insurance industries) to discuss ways to improve NFIP and produce a path to privatization.

While this reform bill is still in the works I will be sure to keep you updated on the final version of this legislation and how Michigan residents will be affected.

Now, I'd be remiss if I didn't comment further on the devastation seen in the Mississippi River floods. That sort of destruction makes the recent flooding we've seen in southeast Michigan look like a walk in the park. It's a very sad state of affairs that many, if not most, of those homes didn't have flood insurance. But that further points out the flaws in the NFIP.

One of the characteristics of Americans, that I believe is uniquely American, is the willingness to help our neighbors when they need a hand. That's why I have long supported the idea of a National Catastrophic Fund. That would help the folks along the Mississippi

River, that would help the people dealing with utter devastation in Joplin, Missouri, and it would help people across the country rebuild when they're hit by natural disasters.

A National Catastrophic Fund would do all of this without plunging into debt, and would do it without subsidizing one part of the country on the back of another.

Lastly, I want to work with Governor Snyder to express my concern regarding NFIP and its negative impacts across our great state. I will offer him, as I am offering you all, my assistance in reviewing the viability of opting Michigan out of NFIP. I will also continue to work in Washington to end this program. While my termination bill has slim chances of passing I will also work alongside my leadership in the House of Representatives to ensure any reforms to NFIP help Michigan and put the program on track to be privatized.

Thank you again for having me here today, and I'd happy to answer any questions at this time.